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# INFORMATION REPORT

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SUBJECT Communist Order Regarding Purchase of Farm  
Commodities on Credit

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INFO.

1. The Committee of Finance and Economics on 15 December 1950 ordered the Ministry of Trade, the various major administrative regions, and the government special trading companies to purchase farm commodities on credit and to cease buying with cash. This order became effective on 15 December, and is summarized as follows:
  - a. The spread of the Korean war since mid-October has directly threatened the security of China and has forced the government to increase heavily its expenditures for other purposes in order to finance heavy disbursements for national defense without completely disrupting the currency situation and commodity prices. Therefore, government trading companies in all localities are ordered to reduce their planned purchases and to suspend the purchase of farm products in large quantities.
  - b. This is the marketing season for farm products; reports from various areas indicate that the suspension of large-scale purchases by government trading companies has caused the price of farm products and by-products to drop steadily, with consequent financial loss to the peasants and lowering of their morale. To meet this crisis, the Committee of Finance and Economics ordered the purchase of these commodities on credit.
  - c. Purchase on credit means that government trading companies will accept deliveries of planned amounts of farm products from the peasants, but will not make immediate payment in cash or in kind. These deliveries will be recorded, and the peasants will receive later payment in installments of either cash or by commodities which they need. Thus, the government trading companies will be able to trade farm products for cash and other commodities which can be delivered to the peasants in return for their deliveries. Financially, the transaction reduces the circulation of paper money and also readjusts the farm economy.
  - d. The government trading companies must stage propaganda activities in the rural areas to teach the peasants the benefits of purchases on credit. Cooperative organizations in various areas must begin

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GENERAL INTELLIGENCE AGENCY


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processing purchases on credit, so that the support of the peasants will be won. Additionally, to protect the peasant interests, measures must be instituted to "guarantee cost and value," i.e., if the price of farm products rises after the peasants have made delivery, payment in cash or in kind shall be computed at the prevailing price of the product at the time of payment; if the price falls, payment shall be computed at the price prevailing when the delivery was made. It is hoped that this type of purchase on credit will work out satisfactorily.

- e. Large quantities of food, cotton and other farm products are now awaiting sale in all the rural areas and these commodities are required in the cities; consequently, the Committee of Finance and Economics directs the government trading companies, under the direction of the major administrative regions and the Ministry of Trade, to institute the policy of purchases on credit so that the demands of the nation's financial and economic plan may be met.
2. In order to control foreign and domestic trade throughout the country, the Chinese Communists in March 1950 promulgated rules for government trading and established six government trading companies specializing in foodstuffs, cotton, yarn and cloth, sundry goods, coal, and native products. These companies were given monopoly over principal supplies and commodities throughout the country, and the sale of farm products and the supply of industrial raw materials were to be handled exclusively by these companies. Since the Chinese Communist intervention in the Korean war increased military expenditures, government trading companies were ordered to suspend large-scale purchases so that severe inflation could be avoided. Even the purchase of food and cotton was suspended. However, the Chinese Communists cannot go without food and cotton while they support forces in Korea, so the suspension of purchases was necessarily a temporary measure to restrict circulation of currency. Now, in order to obtain a supply of essential farm products, they have been forced to devise this policy of purchase on credit. This is purchase on credit in name only; actually, it is requisition. Products which are purchased on credit will undoubtedly be consumed in supporting the war effort and will not be sold on the market for cash and commodities which would form the basis for payments to the peasants. When the time comes to pay the peasants, it is probable that more paper money will have to be issued for this purpose. Thus the financial difficulties of the Chinese Communist regime will increase.

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Memo FI/RQM/IA to CIA Library  
23 June 1954

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